FOOD FAIR STORES, INC. ANNUAL REPORT 1968

Serving the consumer with quality merchandise at the lowest possible price through an ever-more efficient distribution system is our goal. Corporate progress is a measure of our success in this continuing effort.

FOOD FAIR STORES, INC. ANNUAL REPORT 1968

For The Fiscal Year Ended April 27, 1968

FOOD FAIR STORES, INC.

Notice of Annual Meeting of Shareholders

To The Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Food Fair Stores, Inc., will be held in the Burgundy Room, Bellevue Stratford Hotel, Broad and Walnut Streets, Philadelphia, Pennsylvania, on Tuesday, August 20, 1968, at 2:00 o'clock in the afternoon (Eastern Daylight Time), for the following purposes:

1. To elect thirteen directors of the Corporation to hold office for the ensuing year; and

2. To consider and transact such other business as may properly come before the meeting or any adjournments thereof.

A Proxy Statement and the Annual Report of the Corporation for the fiscal year ended April 27, 1968 are enclosed herewith. Shareholders of record at the close of business on July 16, 1968, will be entitled to notice of and to vote at said meeting or any adjournments thereof.

If you cannot be present at the meeting, will you kindly sign, date and return the enclosed form of proxy in the envelope provided.

By Order of the Board of Directors

B. F. Lieber, *Secretary*

Philadelphia, Pa.
July 26, 1968

PROXY STATEMENT

Annual Meeting of Shareholders
To Be Held August 20, 1968

To The Holders of Common Stock of
Food Fair Stores, Inc.:

This statement is furnished in connection with the solicitation by Management of proxies to be used at the Annual Meeting of Shareholders of Food Fair Stores, Inc. (the "Corporation") to be held on August 20, 1968 in Philadelphia, Pennsylvania, and at any adjournments thereof. All shareholders of record at the close of business on July 16, 1968, are entitled to notice of and to vote at such meeting. The stock transfer books will not be closed.

Any proxy, if received in time for voting and not revoked, will be voted at the meeting in accordance with the directions of the shareholder. Any shareholder giving a proxy has the power to revoke it at any time before it is exercised. All expenses incurred in connection with this solicitation will be borne by the Corporation.

Management does not know of any matters which will be brought before the meeting other than those specifically set forth in the notice thereof. However, if any other matter properly comes before the meeting, it is intended that the persons named in and acting under the enclosed form of proxy, or their substitutes, will vote on such matter in accordance with their best judgment.

At the close of business on July 16, 1968, the Corporation had outstanding 7,163,388 shares of Common Stock. Except for the election of directors, which shall be by cumulative vote, each share of Common Stock entitles the holder thereof to one vote on the matters to be voted upon by such shareholders. In addition, 38,065 shares of the Corporation's Preferred Stock were outstanding as of the close of business on July 16, 1968. The holders of Preferred Stock will not be entitled to vote at the meeting.

PRINCIPAL HOLDERS OF VOTING SECURITIES

Samuel Friedland, a Director and Chairman of the Executive Committee of the Board of Directors, is the record and beneficial owner of 35,831 shares of Common Stock of the Corporation, constituting .5% of such shares outstanding. Hasam Realty Corp. is the record owner of 942,632 shares (13.16%) of Common Stock. All of the outstanding stock of Hasam Realty Corp. is owned by Samuel Friedland or members of his family, including Jack M. Friedland, or by trusts for their benefit. Samuel Friedland, Jack M. Friedland and Louis Stein are among the trustees of various of such trusts. Samuel Friedland is also the President and a director of Hasam.

In addition to the above, 47,278 shares (.66%) of Common Stock are owned of record by Samuel Friedland as trustee for the benefit of members of his family and Mr. Friedland is President and a Trustee of the Samuel Friedland Family Foundation, a charitable foundation, which owns 110,500 shares (1.5%) of the Corporation's Common Stock. Samuel Friedland's wife owns an additional 2,081 shares of Common Stock.

ELECTION OF DIRECTORS

At the Annual Meeting of Shareholders, thirteen directors are to be elected, each to hold office pursuant to the Corporation's By-Laws for the term of one (1) year and until his successor shall be elected and shall qualify.

during the fiscal year ended April 27, 1968, the estimated annual retirement benefits under the Corporation's Incentive Bonus and Retirement Plan (the "Plan") and the aggregate amount set aside or accrued under the Plan:

Name of Individual or Identity of Group	Capacities in Which Remuneration Was Received	Aggregate Remuneration	Estimated Annual Retirement Benefits Under The Plan (1) (2)	Aggregate Amount Set Aside from December 1, 1941 to April 27, 1968 in Investment Account Under the Plan (2)
Louis Stein	Chairman, Board of Directors	$ 160,000	$14,134	$184,253
Samuel Friedland	Chairman, Executive Committee, Board of Directors	100,000	(3)	122,040
Jack M. Friedland	President	95,000	7,104	48,719
Myer B. Marcus	Vice Chairman of the Board of Directors	140,000	14,688	146,788
Arthur Rosenberg	Senior Vice President	118,000	13,979	123,185
Samuel P. Mandell	Vice President	125,000	2,828	19,569
Herman R. Silver	Vice President	60,000	4,593	64,670
All Directors and Officers (comprising 24 persons) as a Group		1,277,667	90,392	983,107

(1) The Corporation maintains an Incentive Bonus and Retirement Plan (the "Plan") for salaried employees of the Corporation and its subsidiaries who have been continuously employed for at least five years. Contibutions are determined by the Board of Directors on an annual basis out of earnings, but may not exceed 10% of pretax earnings or 15% of the annual compensation paid to eligible employees. The amounts set forth are based upon the assumption that each person for whom an amount is stated will continue in the service and employ of the Corporation under the Plan in its present form, and that the Corporation will continue to make contributions thereto until the normal retirement age of 65. The amounts set forth above also represent estimated annual benefits payable at the normal retirement date on the basis of insurance policies presently in effect. They do not include dividends which may accrue on such policies, or funds set aside in the investment account under the Plan for the benefit of the participants thereof, for use, among other things, as a reserve for payments of future premiums on said policies, which amounts may increase the annual benefits.

(2) Upon retirement or termination of employment after vesting, the Trustee under the Plan will pay the participant no more than 10% of the participant's interest in any one year, but payments may be accelerated by the Advisory Committee which administers the Plan, with the consent of the Corporation.

(3) The funds in Mr. Friedland's account were segregated from the Plan upon his attaining age 65 and are being held until his retirement. No further contributions were made to Mr. Friedland's account since he attained age 65.

(3) See "Principal Holders of Voting Securities" above for information with respect to the stock ownership of Mr. Friedland.

(4) Exclusive of 1,447 shares held by Jack M. Friedland's wife, and 10,696 shares held by Louis Stein as co-trustee for the benefit of Mr. Friedland. See also "Principal Holders of Voting Securities" above.

(5) D. Frederick Barton and Jack M. Friedland owned \$2,000 and \$200, respectively, of the Corporation's Twenty Year 4% Subordinated Debentures (convertible into Common Stock on or before April 1, 1969 on the basis of \$32.94 per share).

(6) Exclusive of 31,733 shares held by Mr. Marcus' wife, 3,766 shares held by a minor child and 3,468 shares held of record by Mr. Marcus as trustee for the benefit of members of his family.

(7) Exclusive of 29,182 shares held of record by George Friedland as trustee for members of his family and 2,240 shares owned by a corporation of which he owned a majority of the capital stock.

(8) Exclusive of 70,115 shares held by Mr. Kline's wife and 60,000 shares held of record by Mr. Kline as trustee for the benefit of members of his family.

(9) Exclusive of 3,036 shares held of record by Mr. Rosenberg as trustee for the benefit of members of his family and 6,000 shares owned by a corporation of which he owned a majority of the capital stock.

(10) Exclusive of 2,000 shares owned by Mr. Scott's wife.

(11) Exclusive of 46,813 shares held by Mr. Silver's wife.

(12) Exclusive of 18,915 shares held by Mr. Mandell's wife, 6,238 shares held of record by Mr. Mandell as trustee for the benefit of members of his family and 9,415 shares owned by a corporation of which he owned all of the capital stock.

The directors and officers of the Corporation as a group (comprising 24 persons) hold Qualified Stock Options to purchase an aggregate of 138,250 shares of Common Stock, all of which are exercisable at a price of \$21.81 per share. None of the Qualified Stock Options issued to directors or officers since the inception of the Plan have been exercised, and all of said Options remain outstanding.

Remuneration of Directors and Officers

There is set forth below, with respect to each person who was a director or one of the three highest paid officers of the Corporation during such year and whose direct aggregate remuneration exceeded \$30,000, and with respect to all directors and officers of the Corporation as a group, the capacity in which such remuneration was paid, the aggregate direct remuneration paid by the Corporation or its subsidiaries

Unless otherwise instructed, shares represented by the proxies will be voted for the election of the nominees listed below, all of whom are members of the present Board of Directors. In the event that any of such nominees shall become unavailable for any reason, an event which Management does not anticipate, it is intended that proxies will be voted for substitute nominees designated by Management.

The following table sets forth, with respect to each nominee as a director, his principal occupation, the year in which he first became a director of the Corporation, the number of shares of Common Stock of the Corporation which he owned beneficially, directly or indirectly, as of June 30, 1968 and the number of options issued to him to purchase additional shares of such Common Stock under the Corporation's Qualified Stock Option Plan:

Name	Principal Occupation	Year First Became a Director	Common Stock Owned Beneficially Directly or Indirectly (1)	Qualified Stock Options Owned
Louis Stein	Chairman, Board of Directors	1937	24,047(2)	37,000
Samuel Friedland	Director, Chairman of Executive Committee, Board of Directors	1937	(3)	—
Jack M. Friedland	President	1952	63,329(4)(5)	—
Myer B. Marcus	Vice Chairman, Board of Directors	1937	72,223(6)	27,500
George Friedland	Retired, former Vice Chairman of the Board of the Corporation	1937	281,460(7)	—
Hess Kline	Retired, former Vice President and Treasurer of the Corporation	1937	236,500(8)	—
Arthur Rosenberg	Senior Vice President	1940	48,460(9)	22,500
Harold W. Scott	Consultant, former Vice President, The First Pennsylvania Banking & Trust Company, Phila., Pa.	1941	None(10)	
Herman R. Silver	Vice President	1952	53,731(11)	5,000
D. Frederick Barton	Partner, Eastman Dillon, Union Securities & Co., New York, N. Y.	1957	500(5)	—
Omar N. Bradley	Chairman, Board of Directors, Bulova Watch Company, Flushing, N. Y.	1958	127	—
W. Paul Stillman	Chairman, Board of Directors, First National State Bank of New Jersey, Newark, N. J.	1958	400	—
Samuel P. Mandell	Vice President	1961	69,162(12)	22,500

(1) As of May 31, 1968, no individual listed owned, directly or indirectly, any shares of the Corporation's Preferred Stock.

(2) Exclusive of 29,671 shares held by Mr. Stein's wife and 20,354 shares held of record by Mr. Stein as co-trustee for the benefit of others. See Note 4 below. See also "Principal Holders of Voting Securities" above.

TRANSACTIONS WITH CERTAIN PARTIES

During the year ended April 27, 1968, the Corporation, in the ordinary course of its business, effected a series of purchases at wholesale of fresh peaches and apples from or through Consolidated Agriculture and Industries Corporation ("Consolidated"), 29% of the outstanding capital stock of which is owned by certain directors of the Corporation and members of their families. Consolidated is a major fruit growing concern, and has also operated, since July 1, 1965, a division engaged in the fruit brokerage business. Mr. Samuel P. Mandell, a Director of the Corporation is an Officer and Director of Consolidated. The Corporation also purchases peaches and apples through other sources, and its purchases from or through Consolidated, when made, are effected in the open market on the basis of the price and quality of such fruit at the time of each purchase. In the year ended April 27, 1968, the Corporation bought a total of $171,813 of peaches and apples grown by Consolidated or purchased through its brokerage division. During such year, the Corporation's purchases of apples from or through Consolidated were less than 1% of its total purchases of apples, and its purchases of peaches from or through Consolidated were 14.6% of its total purchases of peaches. In the ordinary course of events it is anticipated that the Corporation's future purchases of peaches and apples will continue to include fruit grown by Consolidated or purchased through its brokerage division.

On May 4, 1964, the Corporation leased approximately 640 acres of land in Palm Beach County, Florida, for development as a citrus grove, from Indian Trail Ranch, Inc., a Florida corporation, approximately 18% of the outstanding capital stock of which is owned beneficially by certain directors of the Corporation. Samuel Friedland is an officer and director of Indian Trail Ranch, Inc. The lease, which was for a five year term, provided for annual rental payments of $13,440, and the Corporation had an option thereunder to purchase the property, at any time prior to expiration of the lease. Said option was exercised on March 31, 1967, for a total purchase price of $212,800, payable in installments over a term ending in May, 1973.

OTHER MATTERS

While Management does not know of any other matters which may be brought before the meeting, the proxy confers discretionary authority with respect to the transaction of any other business. It is expected that shares represented by proxies will be voted in support of Management on any question which may properly be submitted at the meeting.

B. F. Lieber
Secretary

Philadelphia, Pa.
July 26, 1968

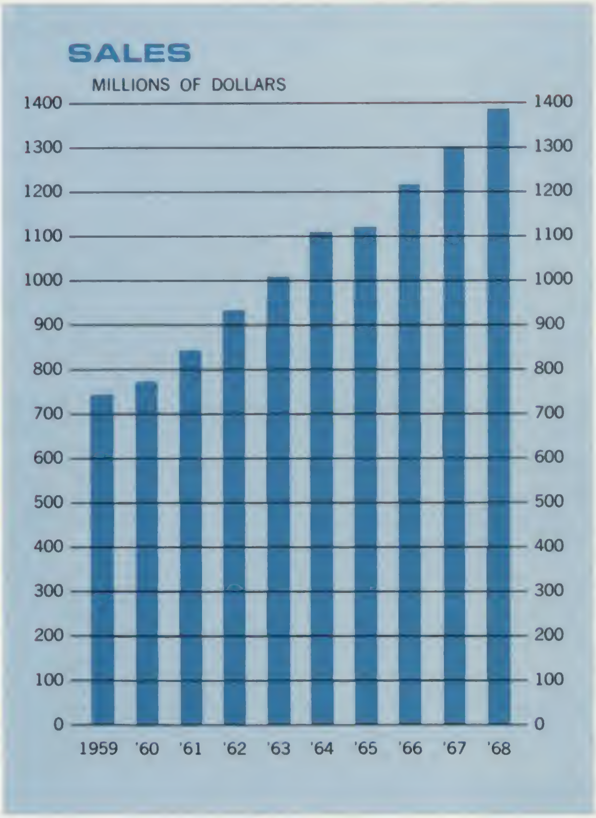
THE YEAR IN BRIEF

FOOD FAIR

FISCAL YEAR	1968	1967
Sales	**$1,371,780,821**	$1,296,620,631
Income Before Taxes on Income and Extraordinary Item	**$ 19,455,382**	$ 17,456,036
Income Before Extraordinary Item	**$ 10,797,195**	$ 10,028,374
Extraordinary Item	—	$ 2,003,000
Net Income	**$ 10,797,195**	$ 12,031,374
Per Share of Common Stock:		
Income Before Extraordinary Item	**$ 1.49**	$ 1.38
Extraordinary Item	—	$ .28
Net Income	**$ 1.49**	$ 1.66
Dividends Paid in Cash:		
Preferred Stock	**$ 161,416**	$ 170,593
Common Stock	**$ 6,433,633**	$ 6,436,354
Earnings Retained in the Business	**$ 4,202,146**	$ 5,424,427
Current Assets	**$ 186,629,311**	$ 166,382,132
Current Liabilities	**$ 97,254,302**	$ 83,021,969
Working Capital	**$ 89,375,009**	$ 83,360,163

ANNUAL MEETING The annual meeting of shareholders of Food Fair Stores, Inc., will be held Tuesday, August 20, 1968, at 2 P.M., E.D.T., in the Burgundy Room of The Bellevue Stratford Hotel, Phila., Pa. Shareholders are cordially invited to attend.

A formal notice of the meeting, a proxy, and a proxy statement are enclosed. Shareholders unable to attend are urged to date, sign, and return the proxy promptly so as to be assured of representation at the meeting.


SALES
MILLIONS OF DOLLARS
1400
1300
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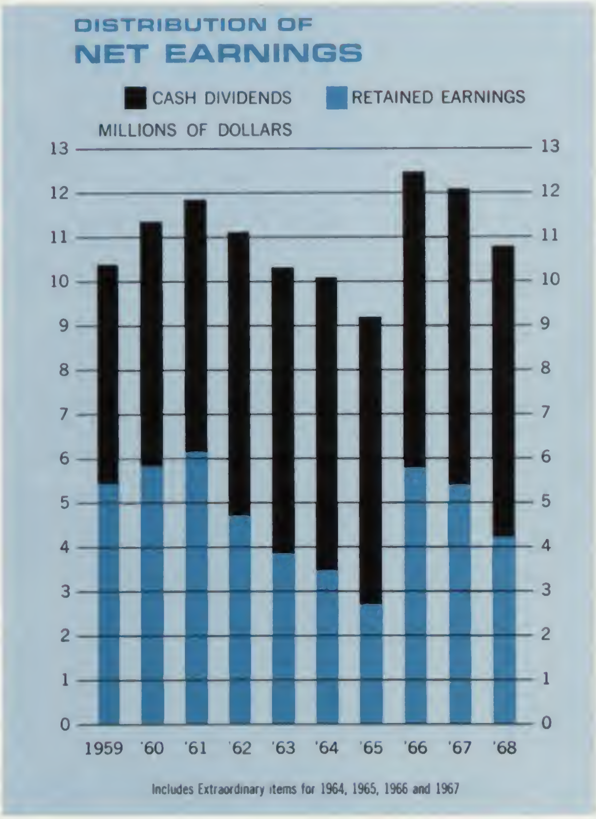
1959 '60 '61 '62 '63 '64 '65 '66 '67 '68


DISTRIBUTION OF
NET EARNINGS
CASH DIVIDENDS
RETAINED EARNINGS
MILLIONS OF DOLLARS
13
12
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1959 '60 '61 '62 '63 '64 '65 '66 '67 '68
Includes Extraordinary items for 1964, 1965, 1966 and 1967

Review of Operations

TO OUR SHAREHOLDERS

Louis Stein
Chairman of the Board

SALES & EARNINGS: Record high sales and a significant improvement in operating earnings marked the fiscal year ended April 27, 1968. Consolidated sales rose to $1,371,780,821, up 5.8% over the previous year's $1,296,620,631.

Earnings before income taxes increased over the previous year by 11.5% rising to $19,455,382 compared with $17,456,036.

Despite higher income taxes, including the 10% surcharge which applied retroactively to Jan. 1, 1968, net earnings increased by 7.7% to $10,797,195, equal to $1.49 a share. Net earnings per share for the year would have been equal to $1.53 without the recently enacted surtax. This compares with $10,028,374 or $1.38 a share a year ago. Last year there was a non-recurring extraordinary income item of $2,003,000, equal to 28 cents per share, which is not included in the comparative results.

The improvement in earnings for the last fiscal year was the result of effective cost control measures, greater efficiency of operation and the benefits accruing from a selective program of converting conventional supermarkets to discount merchandising.

We have every confidence that the upturn in earnings will continue through the present fiscal year, despite the surcharge tax.

Jack Friedland
President

SUPERMARKET OPERATIONS: The growing importance of price in consumer supermarket preference dictated the acceleration of our program of converting selected stores to discounting operations.

During the year, 58 conventional Food Fair markets were changed to discounting operations. These stores operate under the name of Pantry Pride or Food Fair Quality Discount.

Our conversion program is continuing. However, the merchandising changeover is being done on a selective basis, after determining consumer preferences in specific communities and marketing areas.

Although the conversion program is costly, where it has been undertaken following market research studies, consumer response has demonstrated the validity o this method of merchandising, in both higher sales and improved profit margins.

During the year, 16 new food markets were opened in our present marketing areas and 22 outmoded stores were closed.

We also opened a Food Fair market in Freeport on the Grand Bahama Island in the Bahamas, our first outside the United States. This joint venture with native Bahamians has met with excellent consumer acceptance.

We have scheduled a minimum of 20 new food units this year.

To accommodate the increasing flow of new food and household products, the sales area of our new units has grown from an average of 14,000 square feet to a minimum of 16,000 square feet ranging up to 20,000 square feet.

While the store sales area is increasing, the overall store size has not grown proportionately, thereby controlling spiralling construction and occupancy costs. This has been made possible through more efficient food handling procedures and the use of advanced electronic equipment to speed deliveries to stores more frequently, thus reducing the requirements for in-store warehousing of merchandise.

MANUFACTURING & PROCESSING: The volume of business generated by our retail stores has made our entry into the manufacture of certain products sold under the Company's own label a sound business investment.

The first major step was taken two years ago with the building of a plant in Pennsville, N.J., for the manufacture of pretzels, potato chips, peanut butter, cookies and nut meats. Included in the plant is a control laboratory to insure the consistent quality of the products.

In a further step, an agreement was reached during the year with the Horn & Hardart Baking Co. of Phila., under terms of which we are now sharing that firm's modern facilities for the baking of bread, cake, rolls and pastries sold under private label in all of our stores from Connecticut to Virginia.

We also purchased two plants that will add to our present meat packing facilities in Denver, Colo., and Elizabeth, N.J.

When renovation work is completed, both modern plants, in Denver and Newark, N.J., will enable us to increase our meat processing production, improve efficiency, lower operating costs and further insure the high quality of meat we sell.

MARKETING: The re-design of some 2,000 Company brand labels to conform with the federal government's new Fair Packaging and Labeling Act was completed during the year. Changes were scheduled in such a manner that existing supplies were completely consumed before the legal deadline for changeover.

The activity of the Golden Kitchens in recipe development and quality control continued at a high rate. Recipes on labels were revised and improved as the new label design entered its third year.

A great deal of concentration was placed on the package design and marketing of a full line of snack items under the Hygrade label as well as other items produced in our Pennsville, N.J., plant.

Continual evaluation of advertising media in the various divisions and branches has resulted in substantial economies, despite the diversification of merchandising programs required in the different marketing areas.

While continuing to promote all of our Company brand labels, a special marketing effort was placed behind the sale of our private label baked goods, particularly bread, rolls and pies.

The produce department was given a bright, new image through the introduction of the "Garden Fresh" program, completely integrated in department dress-up, point-of-sale material and print media.

Merchants Green Trading Stamps continued to be an important part of the promotional activity of our conventional Food Fair supermarkets. The marketing department continually evaluates the use of trading stamps as sales incentives for individual products, as well as for overall store sales-building programs.


Fashion Center


MEN'S WEAR

J. M. FIELDS DEPARTMENT STORES:

The J. M. Fields Division is making an increasingly important contribution to both sales and earnings.

Three new department stores were opened during the year bringing to 60 the number in operation at the close of the fiscal year.

The new department stores with 80,000 square feet of sales area are tastefully decorated, and feature more expanded lines and better quality merchandise. Both in physical appearance and wares, the modern J. M. Fields store is a far cry from the "discount house" which first came into public prominence in the 1950's.

Favorable consumer response to the "new look" in merchandising has encouraged us to schedule 15 new department stores for opening over the next 18 to 24 months.

At the same time, attention is being given to the remodeling of older units which have potential for growth.

The same concept which guides our supermarket merchandising policy is reflected in our department stores. The stores are essentially self-service with items priced at significant savings to shoppers.

An excellent management team with years of department store experience now directs the mercantile division and there is every indication that this segment of our business will be increasingly profitable.

PERSONNEL & MANAGEMENT DEVELOPMENT: The management development program was intensively continued during the year. In-depth executive appraisals initiated last year were completed, with work performance and potential for promotion of each management member appraised by his immediate superior. Performance and individual development plans were reviewed with management personnel in follow-up appraisal interviews to aid them in their development on the job and to prepare them for greater responsibility.

Following up the appraisals is a continuous program of in-Company development activities, such as individual coaching, added responsibilities, planned reading, and seminars in management skills. Selected personnel are also being sent to professional management seminars or appropriate technical courses conducted by specialists outside the Company.

Continuing emphasis is being placed on the use of a management inventory of "human resources" within the Company, to identify and make use of job skills, work performance, and educational background of personnel, especially for use in promoting personnel from within the Company.

During the year, Herman Stein, a 30-year employe, was promoted to the post of divisional vice president, Linden Division, the first to be named by the Company. An example of our promotion-from-within policy, he served successively as store manager, training director, district manager, branch manager and division manager prior to his recent promotion.

UTILIZATION OF MANPOWER RESOURCES: Effective utilization of labor is a key factor in successful operations. After payment for merchandise, labor costs account for half of the operating expenses.

Management is presently using several special programs to improve efficiency at store and other levels of operations. Work simplification seminars are also being conducted to teach first line supervisors new techniques to work more efficiently with less lost motion.

DATA CENTER: A new Data Center at corporate headquarters in Phila. will be operational in the Fall. It will consolidate a number of separate computer facilities with attendant economies resulting from a unified operation.

The Data Center will house two of the newest and most sophisticated IBM 360 computers. This equipment will permit improved techniques for billing, inventory control and merchandise re-ordering, together with more detailed sales data. The computers will aid in such organization research activities as store site selection, capital budget forecasting, vehicle scheduling and routing, and comprehensive informational services.

FOOD FAIR PROPERTIES: Food Fair Properties, Inc., the shopping center and real estate development firm in which we have a 44% interest, continued to make excellent progress in 1967, setting new records for total income, cash flow and net income.

Properties presently owns and operates 41 shopping centers with five others under construction, including its first regional enclosed mall complex in York, Pa. Over 6,500,000 square feet of gross rentable space are in operation.

In a diversification move, Properties is serving as co-developer of a major urban renewal program in Newark, N.J. Construction has started on the first phase of the project which includes a 30-story office building, a 10-story motor hotel and a shopping plaza. The motor hotel will be operated by Properties under franchise from The Downtowner Corporation, international motel operators.

INSURANCE COMPANY ACTIVITIES: One of our subsidiaries receiving increasingly wider acceptance is the Washington Square Life Insurance Company. Washington Square is now licensed and fully operative in New Jersey, Pennsylvania, Delaware, Florida, Virginia and Maryland.

In addition to individual sale of life insurance, accident and health policies and annuities, it is now authorized to sell group and credit life insurance.

Washington Square has been specializing in the payroll deduction-salary savings method of premium payment.

Operations are conducted throughout the six-state area under the direct supervision of two regional directors.

IN SUMMARY: Although our operations are broad and diversified, our business essentially is that of mass retail distribution where success depends on the ability to bring quality merchandise to the consumer at the lowest possible price. In food retailing, we have played a pioneering role in reducing distribution costs. Today, the American family is spending less of its after-tax dollar for food than ever before . . . only 18%. By contrast, food accounted for 26% of the after-tax dollar 20 years ago.

The same basic concept underlying our food operations is being applied to our J. M. Fields department stores . . . offering quality merchandise at a significant saving to the consumer.

The traditionally low profit margins which mark the retail business require stringent cost control efforts and maximum efficiency of operation. The profitable progress of our Company is a measure of the success of our efforts in this endeavor . . . both in serving consumers and our shareholders.

Louis Stein

Chairman of the Board

Jack Friedland

President

July 26, 1968

FOOD FAIR

STATISTICAL SUMMARY FOOD FAIR STORES, INC. AND SUBSIDIARIES

(all dollar figures are in thousands)

Year Ended	Stores at Year-End	Sales	Net Income	Cash Dividends	Earnings Retained
April 27, 1968	**620**	**$1,371,781**	**$10,797**	**$6,595**	**$4,202**
April 29, 1967	630	1,296,621	12,031 †	6,606	5,425
April 30, 1966	615	1,204,520	12,504 †	6,573	5,931
May 1, 1965	587	1,119,640	9,236 †	6,516	2,720
May 2, 1964*	577	1,105,394	10,034 †	6,507	3,527
April 27, 1963	551	1,003,344	10,370	6,500	3,870
April 28, 1962	504	923,224	11,055	6,279	4,776
April 29, 1961	437	840,180	11,865	5,647	6,218
April 30, 1960	404	771,172	11,395	5,528	5,867
May 2, 1959*	368	733,960	10,396	4,928	5,468

* 53 weeks

† Includes Extraordinary Items of $2,003,000 in 1967, $1,547,000 in 1966, $389,000 in 1965, and $2,677,872 in 1964

CONSOLIDATED STATEMENT OF

INCOME FOOD FAIR STORES, INC. AND SUBSIDIARIES

	52 weeks ended April 27, 1968	52 weeks ended April 29, 1967
Sales	**$1,371,780,821**	$1,296,620,631
Cost of sales	**1,101,004,104**	1,043,827,935
Gross profit	**270,776,717**	252,792,696
Operating expenses	**248,165,200**	233,851,978
Income from operations	**22,611,517**	18,940,718
Other income	**1,506,448**	2,270,643
Income before interest expense	**24,117,965**	21,211,361
Interest expense	**4,662,583**	3,755,325
Income before taxes on income and extraordinary item	**19,455,382**	17,456,036
Taxes on income (Note 5)	**8,658,187**	7,427,662
Income before extraordinary item	**10,797,195**	10,028,374
Extraordinary item	**—**	2,003,000
Net income	**$ 10,797,195**	$ 12,031,374
Income per share of common stock (Note 6):		
Before extraordinary item	**$1.49**	$1.38
Extraordinary item	**—**	.28
Net income	**$1.49**	$1.66
Pro-forma income per share of common stock (Note 6):		
Before extraordinary item	**$1.40**	$1.29
Extraordinary item	**—**	.25
Net income	**$1.40**	$1.54

See notes to financial statements.

CONSOLIDATED STATEMENT OF

RETAINED EARNINGS FOOD FAIR STORES, INC. AND SUBSIDIARIES

	52 weeks ended April 27, 1968	52 weeks ended April 29, 1967
Balance at beginning of period	**$ 61,522,712**	$ 56,098,285
Net income for the period	**10,797,195**	12,031,374
	72,319,907	68,129,659
Deduct:		
Cash dividends:		
Preferred stock	**161,416**	170,593
Common stock	**6,433,633**	6,436,354
	6,595,049	6,606,947
Balance at end of period	**$ 65,724,858**	$ 61,522,712

See notes to financial statements.

CONSOLIDATED STATEMENT OF

FINANCIAL CONDITION FOOD FAIR STORES, INC. AND SUBSIDIARIES

ASSETS	April 27, 1968	April 29, 1967
Current assets:		
Cash	**$ 18,151,735**	$ 16,403,939
Marketable securities, at cost	**564,211**	518,259
Accounts receivable	**32,114,192**	26,682,200
Inventories, at lower of cost or market	**130,416,090**	117,446,031
Prepaid expenses	**5,182,150**	5,044,144
Real estate in the process of development and sale, net of payments received on account; 1968, $6,417,000; 1967, $5,702,000	**200,933**	287,559
Total current assets	**186,629,311**	166,382,132
Investments, at cost:		
Capital stock, Food Fair Properties, Inc.	**4,244,444**	4,244,444
Other (Note 1)	**5,752,708**	5,570,278
	9,997,152	9,814,722
Property, plant and equipment, at cost:		
Land	**10,585,609**	10,212,764
Buildings and improvements	**40,892,599**	39,501,370
Fixtures and equipment	**98,553,776**	94,956,704
	150,031,984	144,670,838
Less accumulated depreciation	**61,452,269**	56,578,372
	88,579,715	88,092,466
Other assets:		
Prepaid expenses, not current	**4,761,743**	4,279,041
Miscellaneous	**869,697**	1,058,125
	5,631,440	5,337,166
	$ 290,837,618	$ 269,626,486

LIABILITIES AND SHAREHOLDERS' EQUITY	April 27, 1968	April 29, 1967
Current liabilities:		
Notes payable	**$ 16,670,305**	$ 11,249,193
Accounts payable	**44,852,984**	41,866,009
Accrued salaries and expenses	**26,453,544**	23,900,609
Current portion of long-term debt (Note 2)	**3,624,509**	3,230,658
Federal and state taxes on income	**5,652,960**	2,775,500
Total current liabilities	**97,254,302**	83,021,969
Long-term debt, due after one year (Note 2)	**67,372,370**	66,520,937
Liability for redemption of trading stamps, less portion included in accrued expenses	**2,050,000**	2,250,000
Deferred Federal income taxes	**7,005,615**	4,979,150
Shareholders' equity:		
Preferred stock (Note 3)	**3,812,500**	3,939,500
Common stock (Note 4)	**47,617,973**	47,392,218
Retained earnings (Note 2)	**65,724,858**	61,522,712
	117,155,331	112,854,430
	$ 290,837,618	$ 269,626,486

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

The following notes are applicable to the financial statements as at April 27, 1968. Reference is made to previously issued report for the notes applicable to the statements as at April 29, 1967.

Note 1

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, except its wholly-owned life insurance company. Investments in this subsidiary and in 50% owned companies are stated at the Company's equity in net assets, and the Company's share of the net income and losses of such companies is included in the consolidated statement of income.

Note 2

Long-term debt at April 27, 1968 is as follows:

	Rate	Due within one year	Due after one year	Final maturity
Banks	4½-6%	$2,394,710	$32,170,540	1969-1973
Mortgages	3.2-6%	651,438	1,948,177	1969-1986
Sinking fund debentures	3⅝%	393,000	12,200,000	1974
Convertible subordinated debentures, net of bonds in treasury of $1,585,000	4%		19,551,200	1979
Other	0-7%	185,361	1,502,453	1969-1985
		$3,624,509	$67,372,370	

Sinking Fund Debentures require semi-annual sinking fund payments of $400,000 through March 1, 1969 and $500,000 thereafter through March 1, 1974. Part of the sinking fund requirements for the year ending May 3, 1969 have been anticipated.

Convertible subordinated debentures are convertible into common stock at $32.94 per share through April 1, 1969. These debentures require semi-annual sinking fund payments beginning April 1, 1970 of 5% of the principal amount of the debentures outstanding on April 1, 1969.

The indentures covering the issuance of the debentures described above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Company. The maximum amount of retained earnings so restricted at April 27, 1968, was $33,670,838.

Note 3

Preferred stock is $4.20 cumulative, $15 par value. 108,190 shares are authorized, of which 38,125 are issued and outstanding. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

Note 4

Common stock is $1 par value; 10,000,000 shares are authorized, of which 7,163,782 are issued, 400 are held in the Company's treasury and 7,163,382 are outstanding.

Common stock account transactions of the Company during the year were as follows:

Balance, April 29, 1967	$47,392,218
Issuance of 12,000 shares of treasury stock in exchange for capital stock of subsidiaries acquired	202,500
Excess of stated value over cost of 1,270 shares of cumulative preferred stock retired	23,255
Balance, April 27, 1968	$47,617,973

At April 27, 1968, the following options, granted to certain employees and officers, to purchase 264,920 shares of common stock, at 100% of the market price on the dates the options were granted, were outstanding:

253,820 shares at $21.81 per share, exercisable on a cumulative basis, 237,620 shares to January 5, 1970 and 16,200 shares to December 7, 1970;

8,600 shares at $23.63 per share, exercisable on a cumulative basis to December 10, 1970;

2,500 shares at $16.13 per share, exercisable on a cumulative basis to November 8, 1972.

Note 5

Taxes on income are comprised of the following:

	52 weeks ended April 27, 1968	52 weeks ended April 29, 1967
Federal:		
Current	$6,156,340	$5,736,609
Investment credit	(367,283)	(740,384)
Deferred	2,262,110	1,835,976
State	607,020	595,461
	$8,658,187	$7,427,662

Note 6

Income per share is based on the average number of shares outstanding during each year.

The pro-forma income per share is based on the assumptions that at each year end (1) the 4% convertible subordinated debentures outstanding had been converted into common stock and the related interest, net of income taxes, had been eliminated, and (2) the stock options outstanding had been exercised, together with appropriate adjustment for the related proceeds.

Note 7

The Federal income tax examination for the years ended April 30, 1961 and 1962 has been concluded. The Company will receive refunds which are subject to approval of the Joint Committee on Internal Revenue Taxation.

As a result of its examination of the Company's Federal income tax return for the year ended April 30, 1963, the Internal Revenue Service has proposed deficiencies in tax, which the Company is protesting.

In the opinion of management, based on advice of tax counsel, the adjustments for the three years ended April 30, 1963, including the proposed net additional tax, will not have a material effect on the net equity of the Company.

Note 8

The Company rents the majority of the premises occupied. At April 27, 1968, the minimum annual rental for such premises under 657 leases expiring more than three years after that date amounted to approximately $25,165,000 plus, in some instances, certain taxes, insurance and other expenses.

CONSOLIDATED STATEMENT OF

SOURCE AND USE OF FUNDS

FOOD FAIR STORES, INC.
AND SUBSIDIARIES

	52 weeks ended April 27, 1968	52 weeks ended April 29, 1967
Source of funds:		
Net income	**$10,797,195**	$12,031,374
Depreciation (straight-line method)	**12,171,978**	12,336,730
Increase in long-term debt	**851,433**	—
Increase in deferred Federal income taxes	**2,026,465**	1,381,750
Other items	**2,500**	—
	25,849,571	25,749,854
Use of funds:		
Cash dividends	**6,595,049**	6,606,947
Property, plant and equipment additions, net	**12,659,227**	9,510,008
Increase in other assets	**294,274**	591,556
Increase in investments	**182,430**	1,187,551
Retirement of preferred stock	**103,745**	297,625
Decrease in long-term debt	**—**	2,993,546
Other items	**—**	148,913
	19,834,725	21,336,146
Increase in working capital	**$ 6,014,846**	$ 4,413,708

LAVENTHOL KREKSTEIN HORWATH & HORWATH

CERTIFIED PUBLIC ACCOUNTANTS

1528 WALNUT STREET
PHILADELPHIA, PA 19102
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OFFICES THROUGHOUT THE WORLD

To the Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated statement of financial condition of Food Fair Stores, Inc. and Subsidiaries at April 27, 1968, and the related consolidated statements of income, retained earnings and source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company and Subsidiaries for the fifty-two weeks ended April 29, 1967.

In our opinion, the accompanying consolidated statements of financial condition, income and retained earnings present fairly the financial position of Food Fair Stores, Inc. and Subsidiaries at April 27, 1968 and April 29, 1967 and the results of their operations for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis; and the accompanying consolidated statement of source and use of funds present fairly the information shown therein.

Laventhol Krekstein Horwath & Horwath

July 3, 1968

FOOD FAIR STORES, INC.

as of April 27, 1968

STATE	FOOD UNITS	DEPARTMENT STORES
CALIFORNIA	39	—
CONNECTICUT	22	3
DELAWARE	9	—
FLORIDA	151	22
GEORGIA	6	2
MARYLAND	54	—
MASSACHUSETTS	—	11
NEVADA	7	—
NEW HAMPSHIRE	—	3
NEW JERSEY	83	4
NEW YORK	64	7
NORTH CAROLINA	—	1
PENNSYLVANIA	102	1
RHODE ISLAND	1	—
SOUTH CAROLINA	2	4
VIRGINIA	20	2
TOTAL	560	60

OFFICERS AND DIRECTORS

FOOD FAIR

OFFICERS

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Chairman of the Board
Chief Executive Officer

MYER B. MARCUS
Vice Chairman of the Board

JACK FRIEDLAND
President

ARTHUR S. ROSENBERG
Senior Vice President

ARNOLD D. COHEN
Vice President
Director of Distribution

RONALD L. FINE
Vice President
Director of Real Estate
Construction and Maintenance

DAVID T. FRIEDLAND
Vice President
Regional Director

HAROLD FRIEDLAND
Vice President
Regional Director
Director of Buying and
Merchandising

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Vice President
Director of Industrial Relations

SAMUEL P. MANDELL
Vice President
Director of Manufacturing

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Vice President
Director of Grocery Buying and
Merchandising

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Vice President
Director of Maryland and
Virginia Operations

HERMAN R. SILVER
Vice President
Director of Meat Operations

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Secretary and Treasurer

SAMUEL FORMAN
Assistant Secretary

HOWARD S. JACOBSEN
Assistant Secretary

LEO DICANDILO
Assistant Secretary

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Partner, Eastman, Dillon,
Union Securities & Co.

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Chairman
Bulova Watch Co.

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Former Vice Chairman and
President

JACK FRIEDLAND
President

SAMUEL FRIEDLAND
Chairman of the
Executive Committee

HESS KLINE
Former Vice President and
Treasurer

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Vice Chairman of the Board

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Senior Vice President

HAROLD W. SCOTT
Financial Consultant

HERMAN R. SILVER
Vice President

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Chairman of the Board

W. PAUL STILLMAN
Chairman
The First National State Bank of
New Jersey

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REGISTRAR • Chase Manhattan Bank, New York, New York
CERTIFIED PUBLIC ACCOUNTANTS • Laventhol Krekstein Horwath & Horwath, Philadelphia, Pennsylvania

Food Fair Stores, Inc. preferred stock and common stock are fully listed on the New York, Pacific Coast, and Philadelphia-Baltimore-Washington stock exchanges.

FOOD FAIR STORES, INC. ANNUAL REPORT 1968